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Before the
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In the Matters of:	)	
Access Charge Reform	)	CC Docket No. 96-262
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
Low Volume Long Distance Users	)	CC Docket No. 99-249
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45

REPLY COMMENTS OF THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

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REPLY COMMENTS OF THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

The National Association of Development Organizations (NADO) hereby offers the following reply comments in response to the Commission's Notice of Proposed Rulemaking in this proceeding.[1]

I. Introduction

NADO is a public interest group founded in 1967 to provide training, information and representation for regional development organizations in small metropolitan and rural America. NADO is the largest and leading advocate for a regional approach to community economic and rural development, including the deployment and upgrading of telecommunications facilities.

NADO believes that adoption of the CALLS Plan is a critical step in the Commission's efforts to bring advanced services and broadband data services to rural and small

[1] *Access Charge Reform, et. al.*, CC Docket No. 96-262, *et. al.*, Notice of Proposed Rulemaking, FCC 99-235 (rel. Sept. 15, 1999) (Notice).

metropolitan America. Until now, the regulated rate structure under which incumbent local exchange carriers (ILECs) operate has encouraged competition and deployment of advanced services primarily in the nation's largest cities. Although the CALLS Plan will only apply to those price cap incumbent local exchange carriers (ILECs) that choose to participate, it realigns the interstate rate structure to provide significantly increased revenue opportunities, and correspondingly increased investment incentives, for these carriers throughout their service territories, but primarily in rural and high cost areas which historically have lacked such incentives. Major portions of rural and small metropolitan America are served by participating ILECs and, accordingly, NADO believes that the CALLS Plan holds real benefits for consumers and businesses in rural America in the form of expanded service options and increased choice of service provider as competitors enter the market. Even for customers of non-participating ILECs, the CALLS Plan promises lower long distance rates and the potential for reduced flat-rated PICC-recovery charges assessed by interexchange carriers.

II. The CALLS Plan Promises Significant Benefits to Rural and Small Metropolitan America

A. Investment in Rural Areas Will Increase

NADO supports the comments of the Massachusetts Department of Telecommunications and Energy, among others, that recognize the investment incentives contained in the CALLS Plan.[2] The interstate rate structure proposed in the CALLS Plan would create dramatic new incentives for both ILECs and new entrants to deploy modern network facilities that can deliver high quality basic telecommunications and information services, including advanced services, broadband data, digital subscriber line (DSL) and other services, in rural and small metropolitan areas. Today's rate structure, in contrast, substantially limits the

[2] Massachusetts Department of Telecommunications and Energy comments at 7-8.

incentives for any carrier to invest in these areas because rates do not, in many areas, recover the costs of providing service.

The Commission has already taken some initial steps to encourage widespread development of competition and investment in new rural facilities by increasing and deaveraging federal high cost universal service support for intrastate rates.[3] Alone, however, these steps are not enough. The CALLS Plan contains several critical additional steps that will help to ensure that the universal service and competitive goals of the Telecommunications Act of 1996 (the 1996 Act) are achieved. The CALLS Plan creates additional incentives for competitive entry and upgrading of facilities in rural America within the very fabric of the interstate rate structure. Specifically, consolidation of the subscriber line charge (SLC) and presubscribed interexchange carrier charge (PICC), coupled with conversion of $650 million of high cost universal service support now implicit in interstate access charges to explicit and portable support targeted to high cost and rural areas, will create dramatic new incentives for competition to develop in these areas. Indeed, by increasing the revenue available to all carriers serving rural high cost areas, bringing these revenues more in line with the costs of providing service, the CALLS Plan represents one of the only ways to facilitate the development of competition in these areas.

As competition develops, both ILECs and new entrants will need to invest in modern, technologically-advanced rural network facilities that can attract and retain customers who demand not just high-quality basic telecommunications services, but also innovative information services, advanced services, and broadband Internet access, among others.

By significantly lowering traffic-sensitive access charges, and converting to flat rates some ILEC cost recovery that is currently traffic sensitive, the CALLS Plan narrows the

[3] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Ninth Report and Order and Eighteenth Order on Reconsideration, FCC 99-306 (rel. Nov. 2, 1999) (Ninth Report and Order).

current disparity between the treatment of Internet Service Providers (ISPs) and IXCs under the interstate access charge rate structure. As packet-switched services increasingly supplant circuit switched services and this disparity threatens to destabilize the recovery of interstate-allocated costs, pressure on the Commission to eliminate or modify the ISP access charge exemption will only grow. The CALLS Plan represents an opportunity for the Commission substantially to address these issues while the effects of the ISP exemption are still manageable.

B. The Commission Must Ensure That IXC Retail Rates Reflect Access Charge Reductions Required by the CALLS Plan

NADO continues strongly to recommend that the CALLS Plan be coupled with an iron-clad commitment on the record from participating interexchange carriers (IXCs) to pass the benefits of reductions in access charges through to their subscribers, and particularly to those low volume subscribers that remain on the IXC's basic rate schedule. Only when coupled with such a pass-through commitment will the benefits of lower toll charges offset the increased SLC cap necessitated by elimination of the PICC.[4]

III. The Dangers to Rural Consumers Are Vastly Overstated in the Record

Contrary to the assertions of some commenters in the record,[5] the benefits of competition promised by the 1996 Act will not accrue to consumers in rural and small metropolitan areas until the opportunity exists for carriers, whether ILECs or their competitors, to recover the costs of serving those areas. The CALLS Plan takes critical steps toward this goal with minimal real impact on most rural consumers by creating essential newly-explicit and portable universal service support for these areas and consolidating charges that rural consumers currently pay in any event.

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[4] *E.g.*, Alliance for Public Technology, the Communications Workers of America, and the National Association of Development Organizations comments at 8; AARP comments at 6; NASUCA comments at 7.

[5] *See, e.g.*, NRTA and NRTC Comments; NASUCA Comments; Texas Office of Public Utility Counsel comments.

The Joint Comments of NRTA and NTCA fundamentally misapprehend the rate integration requirements of section 254(g) and the "reasonably comparable" standard of section 254(b)(3). The Commission has already adopted the Joint Board's recommendation that reasonable comparability requires universal service support to ensure that rates remain within a fair range, "to prevent pressure from high costs and the development of competition from causing unreasonable increases in rates above current, affordable levels."[6] This standard does not require identity between urban and rural rates. While the CALLS Plan does propose increases in the residential SLC cap, the CALLS Plan also ensures that the SLC for no residential line rises above $7.00 per month. Coupled with reduced toll rates and the elimination of the PICC, this cap is adequate to meet the statutory standard.

The statutory rate integration requirement applies on its face only to rates charged by providers of interstate interexchange service. SLCs, which are charged by ILECs, do not fall within this statutory standard. Indeed, the CALLS Plan provides rate benefits for *all* rural subscribers, including those not served by participating ILECs. Currently, many IXCs interpret the rate integration requirements of section 254(g) to require that they assess a flat-rated charge designed to recover their PICC costs even on subscribers that are served by rate-of-return LECs that do not charge PICCs. The CALLS Plan will reduce such assessments by eliminating PICCs for participating ILECs and, at least while the Commission continues to review the interstate access rate structure for rate-of-return ILECs, their customers will continue to benefit from the current lower SLC caps imposed on these carriers. In addition, while the section 254(g) rate integration requirement is not applicable to SLCs, it will ensure that all consumers, including those served by non-participating LECs, benefit from reduced toll charges occasioned by lower traffic sensitive interstate access charges.

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[6] *Ninth Report and Order*, at para. 38.

NADO also disagrees with commenters that assert that the Commission should reject the CALLS Plan based on the allegedly disproportionate impact of the SLC cap increase on low-volume and low-income consumers. The CALLS Plan protects truly low income consumers by increasing the amount of interstate-allocated costs that are eligible for support under the Lifeline program, and eliminates the PICC, which has resulted in small but potentially significant flat-rated charges being assessed even on low-volume users. While the SLC cap does increase, therefore, the CALLS Plan contains significant protections for users that currently are at even greater risk as a result of the increasing rate of erosion of implicit universal service support that today keeps rates affordable for these consumers. In addition, as Commissioner Powell has observed, low income consumers are not necessarily low volume users of interexchange services.[7] For these users, the CALLS Plan holds the promise of dramatic decreases in retail long distance rates.

The Commission in any event should recognize that it has a responsibility as a guardian of the public interest, and not the interests of any single carrier, consumer group, or industry. The benefit of the CALLS Plan should be measured in terms of increased and improved services, lower toll rates, and increased competition. In this regard, the CALLS Plan creates significant new investment incentives for all carriers and, for the first time, lays out a rational, reasonable transition from monopoly to competition for large areas of the entire nation, and not just for low cost large cities where competition scarcely could be prevented.

IV. Conclusion

NADO supports the CALLS Plan and encourages the Commission to adopt it as a package of pro-competitive reforms that will preserve universal service and bring the benefits of

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[7] *Low-Volume Long-Distance Users*, CC Docket No. 99-249, Notice of Inquiry, FCC 99-168 (rel. July 20, 1999)

advanced services, broadband Internet access, and innovative service offerings to rural and small metropolitan America.

Respectfully submitted,

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(statement of Commissioner Michael K. Powell, Concurring, at 2). Even the Commission has questioned the correlation between income and long distance calling volume, *id.* at para. 19.